NATIONAL TEA CO.

BUREAU

REPORTING THE GREATEST YEAR IN NATIONAL'S FIRST HALF CENTURY OF PROGRESS

1899

50

1949

ANNUAL REPORT TO STOCKHOLDERS

1949

OFFICERS AND DIRECTORS

OF NATIONAL TEA CO.

Directors

J. V. CONNER
Deceased 5-7-49

JOHN F. CUNEO*

RAYMOND P. FISCHER

JOHN V. FARWELL III*

ARTHUR J. HANSEN

HARLEY V. McNAMARA*

ROBERT V. RASMUSSEN

WILLIAM E. RUSSELL

ROBERT E. STRAUS

*Member of Executive Committee

Officers

HARLEY V. McNAMARA
President

ARTHUR J. HANSEN
Vice President

NORBERT L. CHAPLICKI
Vice President

FRANK J. GRUMAN
Vice President

WILLIAM E. RUSSELL
Secretary-Treasurer

CLARENCE E. BEARD
Assistant Treasurer

CHARLES WOODING
Assistant Secretary

★

Transfer Agents
The First National Bank
38 S. Dearborn Street
Chicago, Illinois

The Chase National Bank
11 Broad Street
New York, N. Y.

Registrars
Continental Illinois National
Bank and Trust Co.
231 S. LaSalle Street
Chicago, Illinois

The New York Trust Company
100 Broadway
New York, N. Y.

MANAGEMENT REPORT *for* 1949

TO OUR SHAREHOLDERS:

This report commemorates our Fiftieth Anniversary and is the best year in our history for both sales and profits. Also our fifth consecutive year of improved profits and sales.

SALES

Sales for the year amounted to $274,332,677 (establishing a new sales record for the seventh consecutive year), and compare with $270,176,795 for 1948, an increase of 1.54%, again reflecting an increase in tonnage as well as dollars. According to the best information available, at the present time food prices in our trading area are down between 7 and 10% for the year.

PROFITS

The results of operations for the year show a profit of $4,571,935 equivalent after preferred dividends to $5.78 per share on 769,380 shares of outstanding common stock. This compares with a profit of $4,050,006 in 1948 and $5.08 per share.

DIVIDENDS

During the year 1949, dividends of $2.50 per share were paid to common stockholders. An extra dividend of 60c per share was declared on November 28, 1949, payable on January 5, 1950. In addition to common dividends, preferred dividends in the amount of $125,052 were paid or declared.

MERCHANDISE INVENTORIES

Our inventories have decreased from $18,156,725 on December 31, 1948 to $17,681,887 on December 31, 1949; despite larger stores which require larger inventories, our inventory turnover was excellent.

RESULTS AT A GLANCE

	Results of Operations for the Calendar Years				
	5-year average 1940–1944	5-year average 1945–1949	1947	1948	1949
Sales	$83,143,643	$205,385,349	$217,915,297	$270,176,795	$274,332,677
Net Profit before Federal Taxes	799,851	5,254,525	5,772,154	6,483,006	7,419,935
Federal Taxes	279,400	2,041,800	2,175,000	2,433,000	2,848,000
Net Profit after Federal Taxes	520,451	3,212,725	3,597,154	4,050,006	4,571,935
Earned Per Share Common	.71	4.52	5.45	5.08	5.78
Percent of Sales	.63	1.56	1.65	1.50	1.66
Dividends paid per share on Common	.05	1.60	1.25	1.875	2.50
Common Shareholders Investment per Share	17.38	27.71	26.96	29.00	32.19
Ratio of Current Assets to Current Liabilities	2.11	2.32	2.18	2.40	2.48
Number of Common Shares Outstanding	622,650	687,042	641,150	769,380	769,380

STORES

	1945	1946	1947	1948	1949
Stores with meat markets	452	491	556	569	596
Conventional grocery stores	297	202	146	90	59
Total stores on December 31	749	693	702	659	655

REAL ESTATE

The policy of selling Company owned store properties was continued during the year, 6 properties being sold at a profit of $2,004. As of December 31, 1949, we have 19 store properties; one of these has already been sold which leaves 18 properties, 13 of which are occupied by Company stores. We believe that practically all of these locations will be disposed of during the year.

FINANCIAL

On August 15, 1949 the Company borrowed $4,000,000 from the Metropolitan Life Insurance Company on Note due August 1, 1964, with prepayments of $300,000 per year starting August 1, 1952. The proceeds of this loan were applied to the balance owing on the warehouse property purchased in 1948 and to working capital.

The following is a brief summary of the changes in the working capital position of the Company during the year 1949:

Source of Funds:		
Net Profit	$4,571,935	
Promissory Note	4,000,000	$8,571,935
Disposition:		
Excess of Capital Expenditures over Provision for Depreciation and Sales of Property	$1,520,787	
Completion of Purchases of Warehouse Property, less Depreciation Provided	3,104,305	
Increase in Deferred Charges, etc	64,718	
Serial Notes Paid	100,000	
Preferred Stock Retired	386,250	
Dividends:		
Preferred Shares	125,052	
Common Shares	2,000,388	7,301,500
Increase in Net Current Assets		$1,270,435

LEGAL MATTERS

Pending in United States District Court for the Northern District of Illinois, Eastern Division, is a complaint filed on July 21, 1949 by the Dean Milk Company against a number of defendants, including National Tea Co., The Borden Company, Bowman Dairy Company, Western United Dairy Company, Capital Dairy Company, Hunding Dairy Company, Meadowmoor Dairy Company, American Processing and Sales Company, Inc., and John F. Cuneo, alleging that the defendants have violated the Anti-Trust Laws in connection with the distribution of milk in the Chicago area and that the plaintiff is entitled to treble damages which are estimated in excess of $15,000,000. The suit is being contested and has not yet been set for trial. It is the opinion of the management that there is no basis for this suit insofar as our Company is concerned.

ORGANIZATION

There was no change in our top operating organization during the year, nor is any contemplated at the present time. Our organization continued to do an outstanding job during the year through good teamwork and not as individuals. With the additional experience acquired, we feel that they will continue to do a better job this year.

LABOR RELATIONS

Our employees continued to share in the prosperity of the Company with increased income. The wages of our employees increased from $28,490,649 to $29,590,941, an increase of 3.86% over the previous year, 1948 showed an increase of 19.68% over 1947. Your management again recognizes with grateful appreciation the important part played by our regular and part-time employees in the year's results—without their loyal, energetic and efficient cooperation, these outstanding results would not have been achieved. We sincerely hope that management can continue to merit this wholehearted cooperation.

Chicago, Illinois
February 28, 1950

Herm McNamara
PRESIDENT

NATIONAL'S 50 YEARS OF PROGR

YESTERDAY

1899

Chicago 47. Nov. 11 - 1949

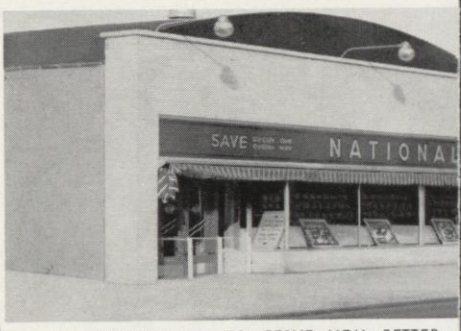
National Tea Co.

We would like to congratulate you on your fiftieth anniversary. We have been with you ever since you opened up a little store on California ave. in the ten hundred block. We were just married then, so we started trading at the National and have ever since. Today we did our shopping at your newest place on Fullerton near Spaulding and it is very nice. We celebrated our golden wedding last June, have raised three boys and two girls all married also traders at the National and we all like it. So congratulations to you again and best wishes for another fifty years.

Respectfully,
John and Bessie Nettland.
2318 N. Central Pk. ave. Chicago.
Mr. + Mrs. Nettland + family

That was in the summer of 1899. lots of luck to the National

WHO'S NEXT—Is a typical greeting to customers of yesteryear that best describes the manner in which purchases were made in this now outmoded National Tea Co. Service Store of old.



DREAMLINED TO SERVE YOU BETTER—describes this Modern National Food Depa only by its massive spaciousness and fac service — Just one of many New National'

PRIDE OF THE "GOOD OLD DAYS"—The Chicago Branch Warehouse as it appeared on National's 25th Anniversary. Although enlarged since, it is now outmoded, and will soon be vacated when the Company takes possession of the new Chicago Warehouse.

THE CHARGE OF THE ELECTRIC TRUCK BRIGADE would be a fitting title for this proud line-up of Electric Trucks which began to replace the Horse and Wagon Deliveries to National Tea Co. stores as early as 1915.

FOOD MERCHANDISING IMPROVEMENTS IN NATIO

PROGRESS WE CAN LOOK FORWARD

ESS IN FOOD MERCHANDISING...

TODAY

1949

SEE — SELECT AND SERVE YOURSELF — Is the motto that invites customers to leisurely help themselves to everything at their finger-tips in this up-to-the-minute National Food Department Store of today.

STREAMLINED TO SAVE YOU MORE — Best ...tment Store — the beauty of which is exceeded ...ilities — offering the ultimate in modern food ...s opened in all Branches in recent years.

National Tea Company

July 21, 1949
Chicago

Gentlemen:

I have just returned from my first visit to your new store and I am filled with awe and wonderment at its magnificence. Even though I watched the construction as it progressed, I never, never dreamed that it would become so beautiful a structure. And, when you add to this the many heretofore unheard of shopper conveniences - the wide electric-eye doors that sweep back majestically to say "welcome," the convenient, low, well-stocked shelves (especially appreciated by five-footers like myself), the grind-it-yourself coffee service, plus the many other self-service departments, the over-size free-wheeling shopping carts, the fascinating check-out counter, and then to sally forth with a new feeling of grandeur as again the gleaming doors swing back.

I think every housewife held her head higher and walked more proudly, knowing that a big, constantly growing American organization spared no expense to accommodate her. I know there undoubtedly are many features which I missed because of the crowd - but, I assure you, these will be observed and appreciated at the first opportunity.

Your Company is certainly to be congratulated. This new store is proof again that National is always the first with the finest. Our Community is proud of the fact that you chose to honor us with so valuable an addition to your great organization of stores, and I hope that it will prove as profitable for you as I know it will for us.

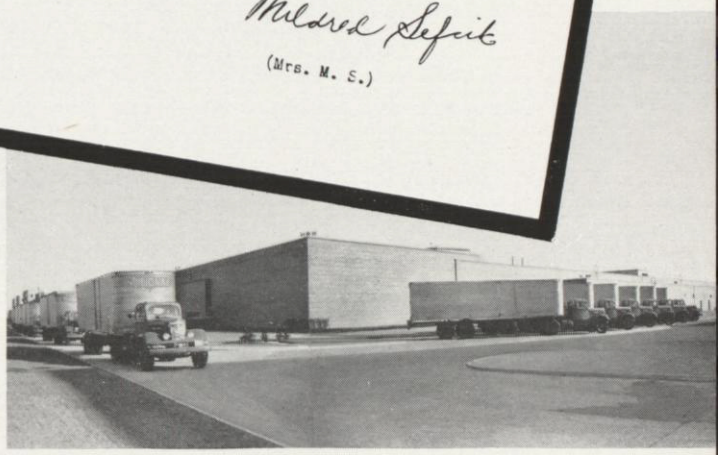
Thank you.

Yours very truly,

Mildred Lefcit

(Mrs. M. L.)

THE NATIONAL FLEET—A few units of which are illustrated here, is the last word in safety and economy, delivering tons and tons of foods — both perishable and staple — to National Stores everywhere with split-second timing and efficiency.



OUR NEW CHICAGO HOME—The purchase of which was previously announced will be one of the largest Grocery Distributing Warehouses in the world. Layout and planning is now in progress and occupancy will begin as soon as possible, after possession.

...NAL'S FIRST 50 YEARS ILLUSTRATE THE CONTINUED ... TO IN OUR SECOND HALF-CENTURY

NATIONAL TEA CO.

CONSOLIDATED

DECEMBER 31,

ASSETS	1949	1948
CURRENT ASSETS:		
Cash	$ 8,731,285	$ 6,429,409
Accounts receivable, less reserves of $20,848 and $17,478, respectively	672,716	910,399
Inventories of merchandise and supplies, at lower of cost or market	17,681,887	18,156,725
Total current assets	$27,085,888	$25,496,533
PREPAID RENTS, INSURANCE, ETC	$ 392,916	$ 414,693

PLANT AND EQUIPMENT, at cost less the remainder ($276,416) of the net write-down of buildings charged to earned surplus in 1935:

	Gross	Reserves		
Land	$ 898,595	$ —	$ 898,595	$ 990,358
Buildings	2,833,365	1,478,125	1,355,240	1,405,590
Fixtures and equipment	16,100,410	6,686,227	9,414,183	7,751,284
	$19,832,370	$8,164,352	$11,668,018	$10,147,232
Warehouse purchased for occupancy in December, 1950, at cost less reserve for depreciation of $41,052 (1948 represents advance payment)			3,904,305	800,000
			$15,572,323	$10,947,232
LEASEHOLDS AND LEASEHOLD IMPROVEMENTS, less amortization			$ 865,456	$ 744,082
			$43,916,583	$37,602,540

NOTES:

(1) At December 31, 1949, earned surplus of $11,789,188 is restricted as to the payment of dividends on common shares and $7,364,691 is restricted as to the payment of dividends on preferred shares. Net current assets must equal at least $10,000,000 after giving effect to the payment of dividends on common shares.

(2) A treble damage suit under the antitrust laws, Civil Action No. 49 C 1159, was

AND SUBSIDIARIES

BALANCE SHEET

1949 AND 1948

LIABILITIES	1949	1948
CURRENT LIABILITIES:		
Accounts payable	$ 5,558,928	$ 6,287,358
Accrued liabilities	2,456,092	1,798,061
Federal income taxes	2,889,940	2,500,621
Total current liabilities	$10,904,960	$10,586,040
LONG-TERM DEBT:		
3¼% promissory note due serially 1952 to 1964	$ 4,000,000	$ —
Serial notes, due 1951 to 1960, interest rates 2¼% to 3%	1,100,000	1,200,000
	$ 5,100,000	$ 1,200,000
RESERVE FOR SELF-INSURANCE	$ 235,284	$ 200,406
CAPITAL STOCK AND SURPLUS:		
Preferred shares, cumulative, par value $50 (sinking fund deposit of $444,619 required on April 1, 1950)—		
4¼% series, authorized and issued 24,200 and 28,400 shares, respectively	$ 1,210,000	$ 1,420,000
3.8% series, authorized and issued 33,975 and 37,500 shares, respectively	1,698,750	1,875,000
Common shares, par value $10, authorized 800,000 shares, issued 788,230 shares	7,882,300	7,882,300
Paid-in surplus	3,012,697	3,012,697
Earned surplus (see Note 1)	14,070,739	11,624,244
	$27,874,486	$25,814,241
Less—Approximate cost of 18,850 common shares held in treasury	198,147	198,147
	$27,676,339	$25,616,094
	$43,916,583	$37,602,540

filed in July, 1949, in the Federal Court at Chicago by Dean Milk Company against a number of defendants, including National Tea Co. and several corporations engaged in the distribution of milk in the Chicago area, claiming damages in a substantial amount on the basis of certain alleged acts of the defendants. The suit is being contested by all defendants and has not yet been set for trial.

NATIONAL TEA CO. AND SUBSIDIARIES

Statement of Consolidated Income

FOR THE YEARS ENDED DECEMBER 31, 1949 AND 1948

	1949	1948
SALES AND OTHER INCOME:		
Sales	$274,332,677	$270,176,795
Profit on disposal of fixed assets, etc	1,122	122,576
Total sales and other income	$274,333,799	$270,299,371
COSTS AND EXPENSES:		
Materials and services purchased from others	$228,333,778	$226,979,977
Wages and salaries	29,590,941	28,490,649
Rentals paid for leased properties	2,833,064	2,552,231
Provision for depreciation	1,245,842	1,009,103
Interest on indebtedness	36,065	41,550
Social security, State, local and miscellaneous taxes	4,874,174	4,742,855
Provision for Federal income taxes	2,848,000	2,433,000
Total costs and expenses	$269,761,864	$266,249,365
NET INCOME FOR THE YEAR	$ 4,571,935	$ 4,050,006

Statement of Consolidated Earned Surplus

FOR THE YEARS ENDED DECEMBER 31, 1949 AND 1948

	1949	1948
BALANCE AT BEGINNING OF YEAR	$ 11,624,244	$ 9,107,104
NET INCOME	4,571,935	4,050,006
	$ 16,196,179	$ 13,157,110
DIVIDENDS:		
4¼% preferred shares	$ 56,639	$ 64,505
3.8% preferred shares	68,413	73,843
Common shares ($2.60 and $2.00 per share, respectively)	2,000,388	1,394,518
	$ 2,125,440	$ 1,532,866
BALANCE AT END OF YEAR	$ 14,070,739	$ 11,624,244

AUDITORS' CERTIFICATE

ARTHUR ANDERSEN & CO.

120 SOUTH LASALLE STREET
CHICAGO 3

TO THE BOARD OF DIRECTORS,
NATIONAL TEA CO.:

We have examined the consolidated balance sheet of NATIONAL TEA CO. (an Illinois corporation) AND SUBSIDIARIES as of December 31, 1949 and the related statements of income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We had previously made a similar examination for the year ended December 31, 1948.

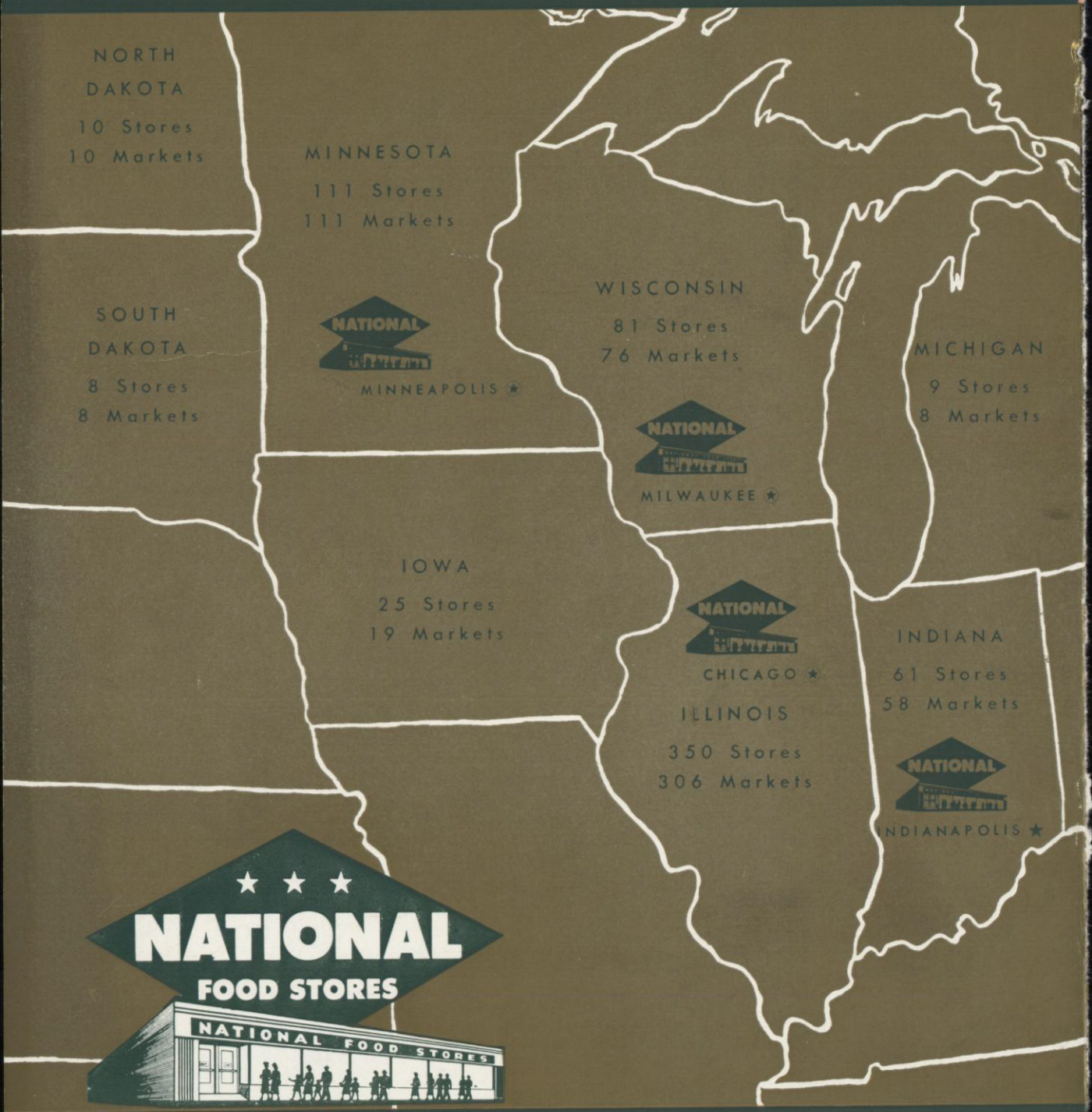
In our opinion, the accompanying consolidated balance sheet and statements of income and earned surplus present fairly the financial position of National Tea Co. and subsidiaries as of December 31, 1949 and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 13, 1950.

NATIONAL FOOD STORES

...SERVING THE GOLDEN MIDWEST...



NATIONAL TEA CO.

CHICAGO INDIANAPOLIS MILWAUKEE MINNEAPOLIS

★ BRANCH WAREHOUSES WITH BAKERIES ★ BRANCH WAREHOUSE